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April 21, 2009

AGENDA ITEM 3d

**TO: MEMBERS OF THE BENEFITS AND PROGRAM ADMINISTRATION
COMMITTEE**

I. SUBJECT: AB 1477 (Krekorian)—As Introduced February 27, 2009
School Member Death Benefit

Sponsor: California Federation of Teachers

II. PROGRAM: Legislation

III. RECOMMENDATION: Support

The increased death benefit will help offset the financial burden on survivors and beneficiaries.

IV. ANALYSIS:

Current law requires a \$2,000 death benefit be paid to the designated beneficiary of a retired school member, with the additional employer contributions required to fund this benefit to be computed as a level percentage of member compensation. This bill would increase that payment to \$6,163 for the designated beneficiary of a retired school member.

Background

The California Public Employees' Retirement Law (PERL) provides varying levels of death benefits according to membership category and status, each providing a "lump-sum" of money to survivors at the time of the member's death. The original lump-sum death benefit of \$300 for all retired CalPERS members was enacted in 1945. However, over the years, the Legislature began to provide different benefit levels to different categories of members: state, school, local, Judges' Retirement Systems (JRS and JRS II), Legislators' Retirement System (LRS), active, and retired.

Currently, state and school members have a retiree death benefit of \$2,000. School employers also have the ability to amend their individual contracts with CalPERS to provide enhanced retiree death benefits of \$3,000, \$4,000 or \$5,000. Local members have a minimum benefit of \$500, with an option to

provide up to \$5,000 through contract amendment. Members of JRS have no retiree burial benefit, while members of LRS receive \$600.

In 1996, the federal income tax exclusion for death benefits up to \$5,000 was repealed. A beneficiary who receives a lump-sum retired death benefit is permitted to roll-over the benefit into a qualified plan or IRA to defer taxes on the amount. Otherwise a mandatory 20 percent federal tax withholding is deducted from the payment.

Proposed Changes

AB 1477 increases the death benefit paid to the beneficiary of a school member from \$2,000 to \$6,163 to match the lump-sum death benefit CalSTRS provides to the beneficiaries of its retired members. It does not change the current death benefit of \$2,000 for retired state members.

Legislative History

- 2002 AB 2688 (Alquist) — Would have increased the various death benefits paid to all members and retirees in the retirement systems administered by CalPERS to \$7,500. This bill died in the Assembly. *CalPERS position: Sponsor*
- 2001 Chapter 1145 (SB 1156, Burton) — Would have raised the death benefit for state and school retirees to \$5,000. The death benefit language was amended out of the bill prior to passage. *CalPERS position: Support, with amendments*
- AB 1162 (Alquist) — Would have raised the death benefit for state and school retirees to \$5,000. This bill died in the Assembly. *CalPERS position: Support*
- 2000 Chapter 947 (AB 50, Migden) – Raised the death benefit for retired school members from \$600 to \$2,000. *CalPERS position: Sponsor*
- AB 1829 (Correa) — Would have increased the death benefit for both state and school members who retired prior to July 3, 2001 to \$5,000. This bill died in the Assembly. *CalPERS position: Co-Sponsor*
- 1998 Chapter 296 (AB 1640 (Migden) – Authorized school employers and contracting agencies the option to amend their contract to provide a \$2,000, \$3,000, \$4,000, or \$5,000 lump sum retired member death benefit. *CalPERS position: Support*
- 1990 Chapter 1701 (SB 1683, Mello) — Raised the death benefit for retired state members from \$600 to \$2,000. *CalPERS position: Support*

Issues

1. Arguments in Support

According to the Author:

“School members of CalPERS should be provided a death benefit that would adequately offset the costs associated with a funeral. Survivors of classified school members of CalPERS bear the same funeral costs as other public servants and as such should receive an equitable benefit as other public employees. This bill remedies this existing benefit inequity by providing them the exact death benefit amount provided to other educators.”

Organizations in Support: California Federation of Teachers (sponsor), California School Employees Association, California Teachers Association

2. Arguments by those in Opposition

There is currently no known opposition; however, similar measures have been vetoed in the past.

In 1999, Governor Davis vetoed legislation (AB 363) that would have raised the death benefit for school members to \$5,000, because it did not include state members.

Organizations in Opposition: There is currently no known opposition

3. Current Burial Benefit Levels are Inadequate.

According to the latest information available from the National Funeral Directors Association, the median cost of a full-service funeral in 2006 was \$7,323. This price included an outer burial container, but did not include cemetery costs for grave space, the monument and other burial costs. Combined with the current Social Security lump-sum death benefit of \$255, the retiree lump-sum burial benefits currently provided are inadequate to pay for a basic funeral and burial.

Comparable systems offer higher death benefits than CalPERS: CalSTRS provides \$6,163; University of California Retirement System provides \$7,500; and the 1937 Act County Systems provide a \$1,000 base benefit with an option to provide up to \$5,000.

4. Benefit Inequality Among Retiree Groups

While AB 1477 would increase benefits for school retirees to match those provided to retired teachers, it should be noted that the death benefit for retired state members would remain at a lower level, thus remedying one benefit inequity and creating another. The author may wish to consider

amending the bill to provide the increased death benefit amount to both retired state and school members.

5. Legislative Policy Standards

The Board has historically supported legislation to increase the death benefit for retired state and school members. The Board's Legislative Policy Standards call for support of proposals that attempt to correct a deficiency in program design. This bill could be viewed as such an attempt, since the current \$2,000 death benefit is insufficient to cover average funeral and burial expenses. This benefit improvement would provide a more adequate burial allowance so that survivors of deceased school members will be less burdened by death-related expenses.

V. STRATEGIC PLAN:

This item is not a specific product of the Annual or Strategic Plans, but is a part of the regular and ongoing workload of the Office of Governmental Affairs.

VI. RESULTS/COSTS:

Program Costs

Based on the June 30, 2007 annual valuation data, increasing the death benefit to \$6,163 for retired school members would increase employer costs as follows:

Estimated Increase in Present Value of Benefits (On June 30, 2007)	\$442.9 Million
Estimated Increase in Unfunded Liability (On June 30, 2010)	\$522.3 Million
Estimated Increase in State Contribution in Fiscal Year 2011-2012 (Based on a 20 Year Amortization of the Increase in Unfunded Liability)	\$49.1 Million

The estimated increase in school employer contributions after 2011-2012 will be increased by 0.449 percent per year. Based on the assumed growth in payroll of 3.25 percent per year, at the end of the 20-year amortization period, the estimated increase in School Employer contributions will be approximately \$90.2 million in 2030-2031.

Administrative Costs

Certain publications (along with the CalPERS website) would need to be updated and modifications to CalPERS benefit calculation systems would have to be made. If out-of-cycle publication revisions are required or additional outside resources are needed to accomplish technology system modifications, administrative costs would increase significantly.

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